Cambridge Assessment International Education

Cambridge International AS & A Level

ECONOMICS **9708/41**

Paper 4 Data Response and Essays **May/June 2021**

2 hours 15 minutes

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You must answer on the enclosed answer booklet.

You will need: Answer booklet (enclosed)

INSTRUCTIONS

- Answer **three** questions in total:
  - Section A: answer Question 1.
  - Section B: answer **two** questions.
- Follow the instructions on the front cover of the answer booklet. If you need additional answer paper, ask the invigilator for a continuation booklet.
- You may use a calculator.
- You may answer with reference to any economy you have studied where relevant to the question.

INFORMATION

- The total mark for this paper is 70.
- The number of marks for each question or part question is shown in brackets [ ].

This document has **4** pages. Any blank pages are indicated.

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Section A

Answer this question.

1 **Public services – better or worse?**

A government usually has macroeconomic policy aims that it hopes will enable some success in raising the quality of life, or well-being, of the population. In doing this the government also hopes to achieve efficiency in the use of resources.

Efficiency is measured by relating inputs to outputs. Inputs are relatively easy to count: they are financial costs of public services. Output can also be counted, but it is not necessarily a good measure of the outcome. The outcome is much harder to calculate. It is broader and more subjective – how do we assess whether a public service is 'better' or 'worse'?

This is where a knowledge of well-being makes an enormous difference. It could provide a much clearer view of the trade-offs that have to be made in allocating taxpayers' money to public services. Take the example of healthcare. To maximise the impact of expenditure on well-being, the budget may need to be adjusted to give more to mental health services and less to building general hospitals. For older people it could mean giving priority to programmes that would keep them out of hospital.

A focus on well-being should lead to better outcomes. This is where policymakers need a better understanding of behavioural economics. Governments have established Behavioural Insights teams, or Nudge Units. They have had some success. A small change in the wording of a letter to people who owed tax demonstrated how more behaviourally sensitive language sped up payments. The unit also found that jobseekers were nearly twice as likely to turn up for a job fair if the text message from the job centre used their names, and nearly three times as likely if the person sending the text message added 'good luck'.

Do tax reliefs persuade people to save? No. So enrol them instead automatically in a pensions programme as a default position, with the possibility of opting out. Allowing people to learn from mistakes is good: it reduces dependency on the public sector and helps people make better decisions for themselves. But some errors, such as failing to save anything until you are too old to earn, cannot be reversed. Then an early 'nudge' is justified. It has proved successful in spreading the habit of saving for retirement into groups not persuaded by tax reliefs alone.

In the long term this, and similar behavioural changes, may well have more influence on well-being than can be represented by concentrating on a monetary calculation of GDP. Other economic indicators could be used to assess this change in well-being.

Source: RSA Issue 1, 2017

(a) The article refers to macroeconomic policy aims. Identify and explain **two** such macroeconomic policy aims. [4]

(b) Is there evidence in the article that a knowledge of behavioural economics can help public policy? [4]

(c) The article says that 'efficiency is measured by relating inputs to outputs'. Is this how economic theory states that efficiency is determined? [5]

(d) The article deals with an improvement in well-being. Discuss whether there are any economic indicators that could be used to assess whether well-being has become better or worse. [7]

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Section B

Answer **two** questions.

2 Assess the suggestion that a free market economy is neither possible nor desirable. [25]

3 **(a)** Explain what is meant by the concept of the 'equilibrium position of a consumer' and how the concept might be used to construct a demand curve for a good. [12]

(b) Distinguish between the income and substitution effects of a change in a good's price and analyse why the effect of a change in price is not always the same for different goods. [13]

4 **(a)** What costs ought a profit-maximising firm take into consideration when making decisions about price and output? [12]

(b) 'Price discrimination is always possible but never desirable.'

Do you agree with this opinion? [13]

5 'Wage differentials can be explained by economic theory. They are a sign of the power of a firm to exploit its workforce and are unjust.'

Do you agree with this view? [25]

6 **(a)** Distinguish between a country's national debt and its public sector budget deficit and consider which is the more important. [12]

(b) Discuss the effectiveness of alternative macroeconomic policies used to reduce a public sector budget deficit. [13]

7 **(a)** Explain and critically evaluate the quantity theory of money. [12]

(b) Monetary policy relies heavily on the theory of a monetary transmission mechanism.

Explain how a monetary transmission mechanism works and discuss its effectiveness. [13]

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